

**RED OAK
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2006

TABLE OF CONTENTS

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-12
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A 13
Statement of Activities	B 14-15
Governmental Fund Financial Statements:	
Balance Sheet	C 16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 17
Statement of Revenues, Expenditures and Changes in Fund Balances	E 18-19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 20
Proprietary Fund Financial Statements:	
Combining Statement of Net Assets	G 21
Combining Statement of Revenues, Expenses and Changes in Net Assets	H 22
Combining Statement of Cash Flows	I 23
Fiduciary Funds Financial Statements:	
Statement of Fiduciary Net Assets	J 24
Statement of Change in Fiduciary Net Assets	K 25
Notes to Financial Statements	26-33
Required Supplemental Information:	
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	34
Notes to Required Supplementary Information - Budgetary Reporting	35
Other Supplementary Information:	<u>Schedule</u>
Nonmajor Special Revenue Funds:	
Combining Balance Sheet	1 36
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2 37
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3 38-39
Fiduciary Funds:	
Combining Statement of Fiduciary Net Assets	4 40
Combining Statement of Changes in Fiduciary Net Assets	5 41
Comparison of Taxes and Intergovernmental Revenue	6 42
Schedule of Expenditures of Federal Awards	7 43
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	44-45
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	46-47
Schedule of Findings and Questioned Costs	48-51

RED OAK COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2005 Election)

Charla Schmid	President	2005
Amy Thomas	Vice President	2005
Bryant Amos	(Resigned July, 2005)	
Gale Haufle		2006
Rod DeVries		2007

(After September, 2005 Election)

Charla Schmid	President	2008
Amy Thomas	Vice President	2008
Gale Haufle		2006
Rod DeVries		2007
Elizabeth Dilley		2006

SCHOOL OFFICIALS

Dr. Kevin Brummer	Superintendent
Sue Wagaman	District Secretary/ Treasurer
Jeanice Lester (Appointed June, 2006)	District Secretary/ Treasurer

Independent Auditor's Report

To the Board of Education of the
Red Oak Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Red Oak Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Red Oak Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated September 27, 2006 on our consideration of Red Oak Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 35 are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Red Oak Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplemental information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

September 27, 2006

RED OAK COMMUNITY SCHOOL DISTRICT

Management's Discussion and Analysis

Red Oak Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$9,922,111 in fiscal year 2005 to \$10,558,033 in fiscal year 2006, while General Fund expenditures increased from \$10,046,313 in fiscal year 2005 to \$10,744,101 in fiscal year 2006.
- The increase in General Fund revenues was primarily due to miscellaneous and state revenue increases. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits, as well as, increased grant activity
- The District had a decrease of 13% in General Fund balance in fiscal 2006. Allowable growth of 4% is inadequate to maintain current programs without using existing reserves.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The government-wide Financial Statements consist of Statement of Net Assets and a Statement of Activities. These provide information about the activities of Red Oak Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Red Oak Community School District operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Red Oak Community School District acts solely as agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Red Oak Community School District

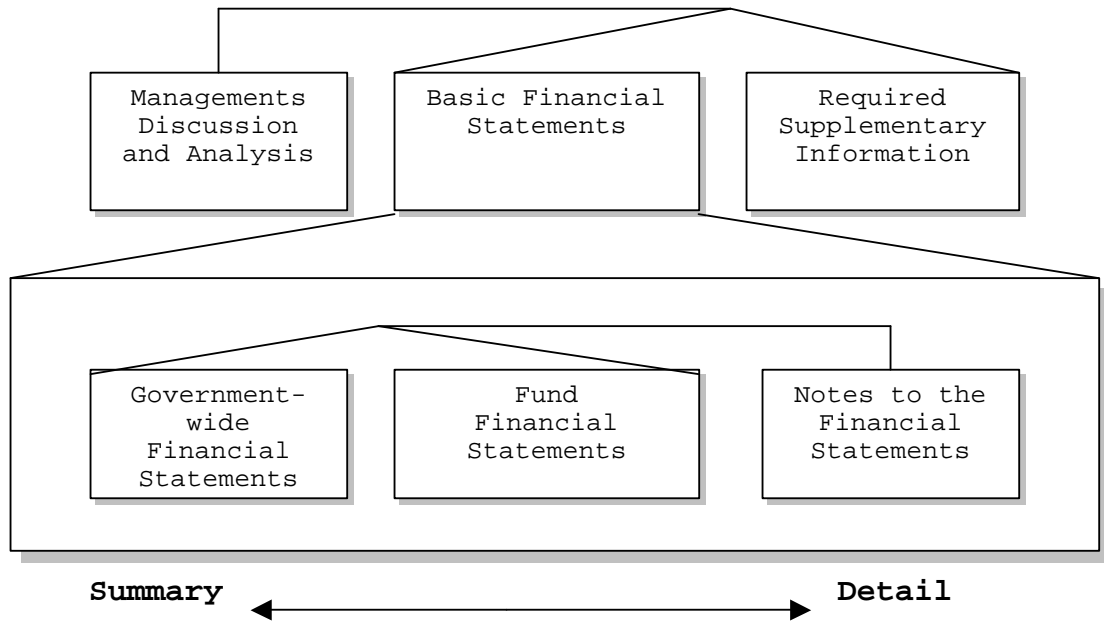


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2				
Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses; food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's program.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Fund.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.
- 3) *Fiduciary Funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as a scholarship fund. The District accounts for outside donations for specific purpose in this fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 and 2005.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Current assets	7,636	7,301	314	239	7,950	7,540	5.44%
Capital assets	10,843	11,089	10	10	10,853	11,099	-2.22%
Total assets	<u>18,479</u>	<u>18,390</u>	<u>324</u>	<u>249</u>	<u>18,803</u>	<u>18,639</u>	<u>0.88%</u>
Current liabilities	4,936	4,700	28	29	4,964	4,729	4.97%
Non-current liabilities	8,412	8,829	-	-	8,412	8,829	-4.72%
Total liabilities	<u>13,348</u>	<u>13,529</u>	<u>28</u>	<u>29</u>	<u>13,376</u>	<u>13,558</u>	<u>-1.34%</u>
Net Assets							
Invested in capital assets, net of related debt	2,548	2,359	10	10	2,558	2,369	7.98%
Restricted	1,077	869	-	-	1,077	869	23.94%
Unrestricted	1,506	1,633	286	210	1,792	1,843	-2.77%
Total net assets	<u>5,131</u>	<u>4,861</u>	<u>296</u>	<u>220</u>	<u>5,427</u>	<u>5,081</u>	<u>6.81%</u>

The District's combined net assets decreased by over 6%, or approximately \$346,000 over the prior year. The largest portion of the District's net assets is invested in capital assets.

Unrestricted net assets - the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased approximately \$51,000 or 3%. This decrease in unrestricted net assets was a result of a decrease in the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006.

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Revenues:							
Program revenues:							
Charges for service and sales	174	188	241	243	415	431	-3.71%
Operating grants, contributions and restricted interest	1,923	1,822	267	252	2,190	2,074	5.59%
General revenues:							
Property tax	3,526	3,674	-	-	3,526	3,674	-4.03%
Income surtax	314	579	-	-	314	579	-45.77%
Local option sales tax	688	592	-	-	688	592	16.22%
Unrestricted state grants	5,337	4,886	-	-	5,337	4,886	9.23%
Unrestricted investment earnings	76	53	-	-	76	53	43.40%
Other	(96)	74	-	-	(96)	74	-229.73%
Total revenues	<u>11,942</u>	<u>11,868</u>	<u>508</u>	<u>495</u>	<u>12,450</u>	<u>12,363</u>	<u>0.70%</u>
Program expenses:							
Governmental activities:							
Instruction	7,300	7,061	-	-	7,300	7,061	3.38%
Support Services	3,113	3,104	-	-	3,113	3,104	0.29%
Non-instructional programs	-	9	432	450	432	459	-5.88%
Other expenses	<u>1,259</u>	<u>1,318</u>	<u>-</u>	<u>-</u>	<u>1,259</u>	<u>1,318</u>	<u>-4.48%</u>
Total expenses	<u>11,672</u>	<u>11,492</u>	<u>432</u>	<u>450</u>	<u>12,104</u>	<u>11,942</u>	<u>1.36%</u>
Change in net assets	<u>270</u>	<u>376</u>	<u>76</u>	<u>45</u>	<u>346</u>	<u>421</u>	<u>-17.81%</u>

Property tax and unrestricted state grants account for 71% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 86% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$11,941,837 and expenses were \$11,671,616.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities
(expressed in thousands)

	Total Cost of Services			Net Cost of Services		
	2006	2005	Change 2005-2006	2006	2005	Change 2005-2006
	\$	\$		\$	\$	
Instruction	7,300	7,061	3.38%	5,676	5,492	3.35%
Support Services	3,113	3,104	0.29%	3,062	3,046	0.53%
Non-instructional programs	-	9	-100.00%	-	9	-100.00%
Other expenses	<u>1,259</u>	<u>1,318</u>	<u>-4.48%</u>	<u>837</u>	<u>933</u>	<u>-10.29%</u>
Totals	<u>11,672</u>	<u>11,492</u>	<u>1.57%</u>	<u>9,575</u>	<u>9,480</u>	<u>1.00%</u>

- The cost financed by users of the District's programs was \$173,735.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,231,593.
- The net cost of governmental activities was financed with \$3,525,960 in property and other taxes and \$5,337,039 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$496,817 and expenses were \$423,410. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for food service, federal and state reimbursements and investment income.

During the year ended June 30, 2006, expenses decreased 6% due to increased cost control measures. The fund balance increased over \$76,000.

INDIVIDUAL FUND ANALYSIS

As previously noted, Red Oak Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$5,130,669, an eight percent increase over last year's ending fund balances of \$4,860,475. Increased revenues were primarily responsible for the increase.

Governmental Fund Highlights

- The District's declining General Fund financial position is the result of several factors. The District has carefully monitored spending to avoid decreases in fund balances, however, uncertain funding from state and federal governments has made this difficult. The preservation of the General Fund balance is especially important in light of the State's decision to remove the budget guarantee.
- The Capital Projects Fund has decreased in balance due to using existing funds to complete various projects and property tax relief throughout the District.

Proprietary Fund Highlights

The School Nutrition Fund balance increased approximately \$76,000 during the fiscal year ending June 30, 2006. This was primarily a result of cost control measures.

BUDGETARY HIGHLIGHTS

The District's receipts were \$335,473 higher than budgeted receipts, a variance of 3%. This variance resulted from the District receiving more miscellaneous revenue than anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$10,853,108, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 2% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expenses for the year was \$425,019.

The original cost of the District's capital assets was \$15,386,016. Governmental funds account for \$15,354,664, with the remainder of \$31,352 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the equipment progress category. The District spent \$463,016 on fixed assets during the year.

Figure A-6
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Land	179	179	-	-	179	179	0.00%
Buildings	10,242	10,030	-	-	10,242	10,030	2.11%
Furniture and equipment	421	880	10	10	431	890	-51.57%
Totals	<u>10,842</u>	<u>11,089</u>	<u>10</u>	<u>10</u>	<u>10,852</u>	<u>11,099</u>	<u>-2.23%</u>

Long-term Debt

The District has outstanding debt of \$8,295,000 for a new elementary school and additions to other buildings. The bonds will be paid off in the year 2020. Proceeds of the local option sales tax are being used to make payments on the debt, thus lessening the amount of property tax levied.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future.

- The District receives local option sales tax money from Montgomery County. These funds are being used for debt reduction resulting in property tax relief for the taxpayers. The District also uses proceeds from the voted portion of the Physical Plant and Equipment Levy for debt reductions.

- Allowable growth as set by the Legislature is inadequate for the District to maintain its current programs without dipping into existing reserves.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", "GASB 34", reduction in state aid for juvenile homes and the unfunded PSEO mandate to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kevin Brummer, Superintendent, Red Oak Community School District, 904 Broad Street, Red Oak, Iowa 51566.

Basic Financial Statements

RED OAK COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	3,201,962	307,992	3,509,954
Receivables:			
Property tax:			
Current year	96,710	-	96,710
Succeeding year	3,772,245	-	3,772,245
Income surtaxes	274,305	-	274,305
Due from other governments	288,681	-	288,681
Other receivables	2,009	-	2,009
Inventories	-	5,714	5,714
Capital assets, net of accumulated depreciation (note 3)	10,842,746	10,362	10,853,108
Total assets	18,478,658	324,068	18,802,726
Liabilities			
Accounts payable	74,038	-	74,038
Accrued salary and benefits	1,051,839	27,568	1,079,407
Accrued interest payable	30,579	-	30,579
Deferred revenue:			
Federal programs	7,389	-	7,389
Succeeding year property tax	3,772,245	-	3,772,245
Long term liabilities:			
Portion due within one year:			
Bonds payable	445,000	-	445,000
Early retirement	116,869	-	116,869
Portion due after one year:			
Bonds payable	7,850,000	-	7,850,000
Total liabilities	13,347,959	27,568	13,375,527
Net assets			
Invested in capital assets, net of related debt	2,547,746	10,362	2,558,108
Restricted for:			
Physical plant and equipment levy	826,577	-	826,577
Capital projects	249,881	-	249,881
Unrestricted	1,506,495	286,138	1,792,633
Total net assets	5,130,699	296,500	5,427,199

See notes to financial statements.

RED OAK COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
	\$	\$	\$	\$	\$	\$
<u>Functions/Programs</u>						
Governmental activities:						
Instruction	7,300,210	162,978	1,461,197	(5,676,035)	-	(5,676,035)
Support services:						
Student services	314,905	-	-	(314,905)	-	(314,905)
Instructional staff services	692,601	-	-	(692,601)	-	(692,601)
Administration services	1,080,644	-	-	(1,080,644)	-	(1,080,644)
Operation and maintenance of plant services	645,186	-	39,771	(605,415)	-	(605,415)
Transportation services	379,511	10,757	-	(368,754)	-	(368,754)
	3,112,847	10,757	39,771	(3,062,319)	-	(3,062,319)
Non-instructional programs						
Other expenditures:						
Facilities acquisition and construction	90,464	-	11,462	(79,002)	-	(79,002)
Long-term debt interest	376,238	-	79	(376,159)	-	(376,159)
Long-term debt services	400	-	-	(400)	-	(400)
AEA flowthrough	410,392	-	410,392	-	-	-
Depreciation (unallocated)*	381,065	-	-	(381,065)	-	(381,065)
	1,258,559	-	421,933	(836,626)	-	(836,626)
Total governmental activities	11,671,616	173,735	1,922,901	(9,574,980)	-	(9,574,980)

RED OAK COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
	\$	\$	\$	\$	\$	\$
Business type activities:						
Non-instructional programs:						
Nutrition services	423,410	230,362	266,455	-	73,407	73,407
Enterprise	8,736	10,883	727	-	2,874	2,874
Total business-type activities	<u>12,103,762</u>	<u>414,980</u>	<u>2,190,083</u>	<u>(9,574,980)</u>	<u>76,281</u>	<u>(9,498,699)</u>
General revenues:						
Property tax levied for:						
General purposes				3,159,237	-	3,159,237
Management fund				260,679	-	260,679
Capital outlay				106,044	-	106,044
Income surtaxes				314,024	-	314,024
Local option sales tax				687,583	-	687,583
Unrestricted state grants				5,337,039	-	5,337,039
Unrestricted investment earnings				76,276	-	76,276
Undepreciated cost of fixed assets disposed of during year				(286,385)	-	(286,385)
Other				190,704	-	190,704
Total general revenue				<u>9,845,201</u>	<u>-</u>	<u>9,845,201</u>
Change in net assets				270,221	76,281	346,502
Net assets beginning of year				<u>4,860,478</u>	<u>220,219</u>	<u>5,080,697</u>
Net assets end of year				<u>5,130,699</u>	<u>296,500</u>	<u>5,427,199</u>

* This amount excludes the depreciation that is included in the direct expense of the various programs.
See notes to financial statements.

RED OAK COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2006

	General	Capital Projects	Physical Plant and Equipment Levy	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	1,989,023	114,913	822,588	275,438	3,201,962
Receivables:					
Property tax:					
Current year	89,843	-	1,980	4,887	96,710
Succeeding year	3,389,791	-	117,454	265,000	3,772,245
Income surtax - succeeding year	-	-	274,305	-	274,305
Due from other governments	153,713	134,968	-	-	288,681
Other receivables	-	-	2,009	-	2,009
Total assets	<u>5,622,370</u>	<u>249,881</u>	<u>1,218,336</u>	<u>545,325</u>	<u>7,635,912</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	73,950	-	-	88	74,038
Accrued salary and benefits	1,051,839	-	-	-	1,051,839
Deferred revenue:					
Federal programs	7,389	-	-	-	7,389
Succeeding year property tax	3,389,791	-	117,454	265,000	3,772,245
Income surtax - succeeding year	-	-	274,305	-	274,305
Total liabilities	<u>4,522,969</u>	<u>-</u>	<u>391,759</u>	<u>265,088</u>	<u>5,179,816</u>
Fund balances:					
Reserved for debt service	-	-	-	-	-
Reserved for capital projects	-	249,881	-	-	249,881
Unreserved	<u>1,099,401</u>	<u>-</u>	<u>826,577</u>	<u>280,237</u>	<u>2,206,215</u>
Total fund balances	<u>1,099,401</u>	<u>249,881</u>	<u>826,577</u>	<u>280,237</u>	<u>2,456,096</u>
Total liabilities and fund balances	<u>5,622,370</u>	<u>249,881</u>	<u>1,218,336</u>	<u>545,325</u>	<u>7,635,912</u>

See notes to financial statements.

RED OAK COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2006

Total fund balances of governmental funds (Exhibit C)		\$ 2,456,096
Amounts reported for governmental activities in the statement of net assets are different because:		
Income surtax receivable at June 30, 2006 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.		274,305
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		10,842,746
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(30,579)
Long-term liabilities, including bonds payable and capital loan notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
General obligation bonds	(8,295,000)	
Early retirement	<u>(116,869)</u>	<u>(8,411,869)</u>
Net assets of governmental activities (Exhibit A)		<u><u>\$ 5,130,699</u></u>

See notes to financial statements.

RED OAK COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2006

	General	Debt Service	Capital Projects	Physical Plant and Equipment Levy	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	3,159,237	-	687,583	420,068	260,679	4,527,567
Tuition	162,978	-	-	-	-	162,978
Other	257,056	79	11,462	29,823	239,552	537,972
State sources	6,312,606	-	-	75	187	6,312,868
Federal sources	666,156	-	-	-	-	666,156
Total revenues	<u>10,558,033</u>	<u>79</u>	<u>699,045</u>	<u>449,966</u>	<u>500,418</u>	<u>12,207,541</u>
Expenditures:						
Instruction:	<u>6,973,530</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>308,964</u>	<u>7,282,494</u>
Support services:						
Student services	314,905	-	-	-	-	314,905
Instructional staff services	692,601	-	-	-	-	692,601
Administration services	1,077,277	-	-	-	3,367	1,080,644
Operation and maintenance of plant services	975,391	-	-	-	132,811	1,108,202
Transportation services	300,005	-	-	38,165	-	338,170
	<u>3,360,179</u>	<u>-</u>	<u>-</u>	<u>38,165</u>	<u>136,178</u>	<u>3,534,522</u>

RED OAK COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2006

	General	Debt Service	Capital Projects	Physical Plant and Equipment Levy	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$	\$
Other expenditures:						
Facilities acquisition and construction	-	-	-	90,464	-	90,464
Long-term debt:						
Principal	-	435,000	-	-	-	435,000
Interest	-	377,381	-	-	-	377,381
Services	-	400	-	-	-	400
AEA flowthrough	410,392	-	-	-	-	410,392
	<u>410,392</u>	<u>812,781</u>	<u>-</u>	<u>90,464</u>	<u>-</u>	<u>1,313,637</u>
Total expenditures	<u>10,744,101</u>	<u>812,781</u>	<u>-</u>	<u>128,629</u>	<u>445,142</u>	<u>12,130,653</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(186,068)</u>	<u>(812,702)</u>	<u>699,045</u>	<u>321,337</u>	<u>55,276</u>	<u>76,888</u>
Other financing sources (uses):						
Compensation for loss of capital assets	20,681	-	-	-	-	20,681
Operating transfers in	-	804,601	-	-	-	804,601
Operating transfers out	-	-	(636,916)	(167,685)	-	(804,601)
	<u>20,681</u>	<u>804,601</u>	<u>(636,916)</u>	<u>(167,685)</u>	<u>-</u>	<u>20,681</u>
Change in fund balances	(165,387)	(8,101)	62,129	153,652	55,276	97,569
Fund balances beginning of year	<u>1,264,788</u>	<u>8,101</u>	<u>187,752</u>	<u>672,925</u>	<u>224,961</u>	<u>2,358,527</u>
Fund balances end of year	<u><u>1,099,401</u></u>	<u><u>-</u></u>	<u><u>249,881</u></u>	<u><u>826,577</u></u>	<u><u>280,237</u></u>	<u><u>2,456,096</u></u>

See notes to financial statements.

RED OAK COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances - Governmental Funds
 to the Statement of Activities

Year ended June 30, 2006

Net change in fund balances - total governmental funds (Exhibit E) \$ 97,569

Amounts reported for governmental activities in the
 statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 463,016	
Depreciation expense	<u>(422,406)</u>	40,610

Undepreciated cost of fixed assets disposed of during year (286,385)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 435,000

Early retirement expenses reported in the Statement of Activities do not require the use current financial resources and, therefore, are not reported as expenditures in the governmental funds. (17,716)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 1,143

Change in net assets of governmental activities (Exhibit B) \$ 270,221

RED OAK COMMUNITY SCHOOL DISTRICT

Combining Statement of Net Assets
Proprietary Funds

Year ended June 30, 2006

	School Nutrition	Enterprise	Total
	\$	\$	\$
Assets			
Cash and pooled investments	295,722	12,270	307,992
Inventories	5,714	-	5,714
Capital assets, net of accumulated depreciation	10,362	-	10,362
Total assets	<u>311,798</u>	<u>12,270</u>	<u>324,068</u>
Liabilities			
Accrued salary and benefits	27,568	-	27,568
Total liabilities	<u>27,568</u>	<u>-</u>	<u>27,568</u>
Net assets			
Invested in capital assets, net of related debt	10,362	-	10,362
Unrestricted	273,868	12,270	286,138
Total net assets	<u>284,230</u>	<u>12,270</u>	<u>296,500</u>

See notes to financial statements.

RED OAK COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds

Year ended June 30, 2006

	School Nutrition	Enterprise	Total
	\$	\$	\$
Operating revenue:			
Local sources:			
Charges for services	<u>230,362</u>	<u>10,883</u>	<u>241,245</u>
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	126,974	-	126,974
Benefits	75,166	-	75,166
Services	7,511	-	7,511
Supplies	211,146	-	211,146
Property	-	-	-
Depreciation	<u>2,613</u>	<u>-</u>	<u>2,613</u>
	<u>423,410</u>	<u>-</u>	<u>423,410</u>
Other enterprise operations:			
Services	<u>-</u>	<u>8,736</u>	<u>8,736</u>
Total operating expenses	<u>423,410</u>	<u>8,736</u>	<u>432,146</u>
Operating income (loss)	<u>(193,048)</u>	<u>2,147</u>	<u>(190,901)</u>
Non-operating revenues:			
Interest on investments	9,939	727	10,666
State sources	5,702	-	5,702
Federal sources	<u>250,814</u>	<u>-</u>	<u>250,814</u>
	<u>266,455</u>	<u>727</u>	<u>267,182</u>
	484,323		
Change in net assets	73,407	2,874	76,281
Net assets beginning of year	<u>210,823</u>	<u>9,396</u>	<u>220,219</u>
Net assets end of year	<u>284,230</u>	<u>12,270</u>	<u>296,500</u>

See notes to financial statements.

RED OAK COMMUNITY SCHOOL DISTRICT

Combining Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2006

	School Nutrition	Community Education	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of services	230,401	10,883	241,284
Cash payments to employees for services	(203,396)	-	(203,396)
Cash payments to suppliers for goods or services	(194,812)	(8,736)	(203,548)
Net cash provided by (used in) operating activities	(167,807)	2,147	(165,660)
Cash flows from non-capital financing activities:			
State grants received	5,702	-	5,702
Federal grants received	232,938	-	232,938
Net cash provided by non-capital financing activities	238,640	-	238,640
Cash flows from capital financing activities:			
Acquisition of fixed assets	(2,362)	-	(2,362)
Cash flows from investing activities:			
Interest on investments	9,939	727	10,666
Net increase (decrease) in cash and cash equivalents	78,410	2,874	81,284
Cash and cash equivalents beginning of year	217,312	9,396	226,708
Cash and cash equivalents end of year	295,722	12,270	307,992
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	(193,048)	2,147	(190,901)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:			
Depreciation	2,613	-	2,613
Commodities used	17,876	-	17,876
Decrease in other receivables	39	-	39
Decrease in inventory	5,969	-	5,969
(Decrease) in accrued payroll and benefits	(1,256)	-	(1,256)
	(167,807)	2,147	(165,660)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:			
Current assets:			
Cash	295,722	12,270	307,992

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received federal commodities valued at \$17,876.

See notes to financial statements.

RED OAK COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2006

	Private Purpose Trusts
	<u>\$</u>
Assets	
Cash	<u>67,496</u>
Total assets	<u>67,496</u>
Net Assets	
Reserved for scholarships	<u>67,496</u>
Total net assets	<u><u>67,496</u></u>

See notes to financial statements.

RED OAK COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2006

	Private Purpose Trusts
	<u>\$</u>
Additions:	
Local sources:	
Miscellaneous	2,448
Deductions:	
Support services:	
Scholarships awarded	<u>4,105</u>
Change in net assets	(1,657)
Net assets beginning of year	<u>69,153</u>
Net assets end of year	<u><u>67,496</u></u>

See notes to financial statements.

RED OAK COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

Red Oak Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Red Oak, Iowa, and agricultural territory in Montgomery, Page and Pottawattamie Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Red Oak Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities.

The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Red Oak Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Montgomery County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operation fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Physical Plant and Equipment Levy is used to account for the purchase of equipment and the repairing, remodeling and construction of buildings and land improvements.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary funds:

The District's proprietary funds are the School Nutrition and Enterprise Funds. The School Nutrition Fund is used to account for the food service operations of the District. The Enterprise Fund is used to account for a student operated business.

C. Measurement Focus and Basis of Accounting

The government-wide and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus". The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for employees with annual contracts corresponding to the current school year, which is payable in July, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2006.

Long-term obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures did not exceed the amounts budgeted in any of the four functions.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2006 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had no investments.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>179,360</u>	<u>-</u>	<u>-</u>	<u>179,360</u>
Capital assets being depreciated:				
Buildings	13,336,025	463,016	-	13,799,041
Furniture and Equipment	<u>2,416,242</u>	<u>-</u>	<u>1,039,979</u>	<u>1,376,263</u>
Total capital assets being depreciated	<u>15,752,267</u>	<u>463,016</u>	<u>1,039,979</u>	<u>15,175,304</u>
Less accumulated depreciation for:				
Buildings	3,306,512	250,192	-	3,556,704
Furniture and Equipment	<u>1,536,594</u>	<u>172,214</u>	<u>753,594</u>	<u>955,214</u>
Total accumulated depreciation	<u>4,843,106</u>	<u>422,406</u>	<u>753,594</u>	<u>4,511,918</u>
Total capital assets being depreciated, net	<u>10,909,161</u>	<u>40,610</u>	<u>286,385</u>	<u>10,663,386</u>
Governmental activities, capital assets, net	<u>11,088,521</u>	<u>40,610</u>	<u>286,385</u>	<u>10,842,746</u>
Business type activities				
Furniture and Equipment	28,990	2,362	-	31,352
Less accumulated depreciation	<u>18,377</u>	<u>2,613</u>	<u>-</u>	<u>20,990</u>
Business type activities capital assets, net	<u>10,613</u>	<u>(251)</u>	<u>-</u>	<u>10,362</u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Transportation				41,341
Unallocated				<u>381,065</u>
				<u>422,406</u>
Business type activities:				
Food service operations				<u>2,613</u>

(4) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2006 is as follows:

	General Obligation Bonds
Balance beginning of year	\$8,730,000
Additions	-
Reductions	<u>435,000</u>
Balance end of year	<u>\$8,295,000</u>

(5) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$334,849, \$324,780, and \$320,150 respectively, equal to the required contributions for each year.

(6) Risk Management

Red Oak Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$410,392 for year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(8) Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
	<u>%</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
2007	3.35-3.55	363,267	445,000	808,267
2008	3.65-3.80	347,398	465,000	812,398
2009	3.80-4.00	329,805	475,000	804,805
2010	4.00-4.10	310,840	495,000	805,840
2011	4.10-4.20	290,463	515,000	805,463
2012	4.20-4.30	268,645	545,000	813,645
2013	4.30-4.40	245,130	565,000	810,130
2014	4.40-4.50	220,190	590,000	810,190
2015	4.50-4.60	193,448	615,000	808,448
2016	4.60-4.70	164,965	645,000	809,965
2017	4.70-4.80	134,458	675,000	809,458
2018	4.80-4.85	101,865	715,000	816,865
2019	4.85-4.90	66,668	750,000	816,668
2020	4.90-4.90	29,400	800,000	829,400
Total		<u>3,066,542</u>	<u>8,295,000</u>	<u>11,361,542</u>

(9) Bond Defeasance

During the fiscal year ending June 30, 2002, the District refinanced its existing bonded indebtedness. Savings are estimated to be approximately \$350,000. The original issue is not callable until May 1, 2008. Funds from refinancing that are being held by Bankers Trust Company, are deemed to be sufficient to retire the old debt. \$7,945,000 of bonds are considered to be defeased at June 30, 2006.

(10) Interfund Transfers

The detail of interfund transfers for the year ending June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
Debt Service	Capital projects	\$636,916
	Special Revenue:	
	Physical Plant and Equipment Levy	<u>167,685</u>
	Total	<u>\$804,601</u>

Required Supplementary Information

RED OAK COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	5,228,517	251,911	5,480,428	5,223,729	5,223,729	256,699
State sources	6,312,868	5,702	6,318,570	6,315,767	6,315,767	2,803
Federal sources	666,156	250,814	916,970	841,000	841,000	75,970
Total revenues	<u>12,207,541</u>	<u>508,427</u>	<u>12,715,968</u>	<u>12,380,496</u>	<u>12,380,496</u>	<u>335,472</u>
Expenditures:						
Instruction	7,282,494	-	7,282,494	7,810,000	7,810,000	527,506
Support services	3,534,522	-	3,534,522	3,318,000	3,543,472	8,950
Non-instructional programs	-	432,146	432,146	540,000	540,000	107,854
Other expenditures	1,313,637	-	1,313,637	1,380,023	1,380,023	66,386
Total expenditures	<u>12,130,653</u>	<u>432,146</u>	<u>12,562,799</u>	<u>13,048,023</u>	<u>13,273,495</u>	<u>710,696</u>
Excess (deficiency) of revenues over (under) expenditures	76,888	76,281	153,169	(667,527)	(892,999)	1,046,168
Other financing sources (uses)	<u>20,681</u>	<u>-</u>	<u>20,681</u>	<u>5,000</u>	<u>5,000</u>	<u>15,681</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	97,569	76,281	173,850	(662,527)	(887,999)	1,061,849
Balance beginning of year	<u>2,358,527</u>	<u>220,219</u>	<u>2,578,746</u>	<u>2,103,313</u>	<u>2,103,313</u>	<u>475,433</u>
Balance end of year	<u>2,456,096</u>	<u>296,500</u>	<u>2,752,596</u>	<u>1,440,786</u>	<u>1,215,314</u>	<u>1,537,282</u>

See accompanying independent auditor's report.

RED OAK COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$225,472.

During the year ended June 30, 2006, expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

Other Supplementary Information

RED OAK COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2006

	<u>Management</u>	<u>Student</u> <u>Activity</u>	<u>Total</u>
	\$	\$	\$
Assets			
Cash and pooled investments	129,054	146,384	275,438
Property tax receivable:			
Current year	4,887	-	4,887
Succeeding year	<u>265,000</u>	<u>-</u>	<u>265,000</u>
Total assets	<u><u>398,941</u></u>	<u><u>146,384</u></u>	<u><u>545,325</u></u>
Liabilities and Fund Balance			
Liabilities:			
Accounts payable	-	88	88
Deferred revenue:			
Succeeding year property tax	<u>265,000</u>	<u>-</u>	<u>265,000</u>
	<u>265,000</u>	<u>88</u>	<u>265,088</u>
Fund balance:			
Unreserved fund balances	<u>133,941</u>	<u>146,296</u>	<u>280,237</u>
Total liabilities and fund balances	<u><u>398,941</u></u>	<u><u>146,384</u></u>	<u><u>545,325</u></u>

See accompanying independent auditor's report.

RED OAK COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2006

	Management	Student Activity	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	260,679	-	260,679
Other	9,686	229,866	239,552
State sources	187	-	187
Total revenues	<u>270,552</u>	<u>229,866</u>	<u>500,418</u>
Expenditures:			
Instruction:	99,153	209,811	308,964
Support services:			
Administration services	3,367	-	3,367
Plant operation and maintenance	132,811	-	132,811
Student transportation	-	-	-
Other expenditures:			
Facilities acquisition and construction	-	-	-
Total expenditures	<u>235,331</u>	<u>209,811</u>	<u>445,142</u>
Excess (deficiency) of revenues over (under) expenditures	<u>35,221</u>	<u>20,055</u>	<u>55,276</u>
Other financing sources(uses):			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total operating financing (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	35,221	20,055	55,276
Fund balances beginning of year	<u>98,720</u>	<u>126,241</u>	<u>224,961</u>
Fund balances end of year	<u><u>133,941</u></u>	<u><u>146,296</u></u>	<u><u>280,237</u></u>

See accompanying independent auditor's report.

RED OAK COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
SH Athletics	18,692	60,060	73,344	5,408
SH Band	2,984	10,249	12,132	1,101
SH Drama	1,410	5,126	4,598	1,938
SH FBLA	73	7,700	9,318	(1,545)
SH FFA	1,122	9,125	5,580	4,667
SH FHA	1,292	653	341	1,604
SH French Club	1,237	-	-	1,237
SH General	1,248	4,989	5,491	746
SH Graduation	-	508	2,162	(1,654)
SH Junior Class	483	10,558	9,761	1,280
SH Locks	99	-	-	99
SH Media	248	47	88	207
SH Protech Class	358	-	-	358
SH Senior Class	556	1,710	1,110	1,156
SH Speech	268	503	768	3
SH Student Council	1,153	3,427	2,664	1,916
SH Towels	27	-	-	27
SH Vocal Music	9,147	25,498	25,665	8,980
SH Yearbook	4,778	8,767	3,012	10,533
SH International Club	433	-	95	338
MS Band	42	645	-	687
MS Drama	6,046	559	-	6,605
MS FHA	1	1,846	1,758	89
MS General	1,011	5,356	2,857	3,510
MS Media	465	1,259	965	759
MS Student Council	1,295	-	162	1,133
MS Vending	41	7,808	6,143	1,706
MS Yearbook	703	3,000	2,920	783
4-5 General	1,572	2,220	332	3,460
4-5 Vending	241	2,081	1,637	685
K-3 General	705	10,381	669	10,417
K-5 Media	2,257	10,942	11,605	1,594
K-12 Petty Cash	-	-	456	(456)
K-12 Interest	44,572	5,883	4,500	45,955
K-12 General	5,944	1,215	1,824	5,335
SH General Resale	7	-	-	7
Band Boosters	4,685	7,480	5,216	6,949
Student Needs	75	-	-	75
Love Our Kids	1,189	-	-	1,189
SH Minnisingers	1,547	740	1,489	798
Dr. F.T. Fish Memorial	19	-	28	(9)
Cheerleader Club	768	3,576	3,567	777
SH Wrestling Cheerleader Club	433	1,191	1,063	561

RED OAK COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year \$	Revenues \$	Expenditures \$	Balance End of Year \$
MS Team 6	1,004	1,734	1,469	1,269
MS Team 7	1,129	806	958	977
MS Team 8	339	725	429	635
SH Football Club	513	-	-	513
Basketball Resale	125	103	-	228
Tennis Resale	328	26	-	354
Band Boosters Fiesta Bowl	293	148	-	441
Student Needs	445	-	54	391
SH Football Resale	1,091	1,958	-	3,049
SH Baseball Resale	-	-	149	(149)
SH Letterman's Club	696	860	334	1,222
SH G Basketball Resale	-	-	-	-
K-12 Special Olympics	355	-	-	355
K-12 Fine Arts	148	1,180	1,328	-
MS National Jr Honor Society	-	-	66	(66)
HS Track Resale	549	1,003	1,557	(5)
HS Volleyball Resale	-	6,221	147	6,074
Total	<u>126,241</u>	<u>229,866</u>	<u>209,811</u>	<u>146,296</u>

See accompanying independent auditor's report.

RED OAK COMMUNITY SCHOOL DISTRICT

Combining Statement of Fiduciary Net Assets
Fiduciary Funds - Private Purpose Trusts

June 30, 2006

	<u>Anderson Scholarship</u>	<u>Stanley Plank Scholarship</u>	<u>Klopping Trust</u>	<u>Bloom Scholarship</u>	<u>Lowell G. and Blanche Kinnison Scholarship</u>	<u>Leland Peterson Scholarship</u>	<u>Class of 38 Scholarship</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$	\$	\$
Assets								
Cash	<u>43</u>	<u>10,088</u>	<u>22,278</u>	<u>20,206</u>	<u>7,190</u>	<u>6,430</u>	<u>1,261</u>	<u>67,496</u>
Total assets	<u>43</u>	<u>10,088</u>	<u>22,278</u>	<u>20,206</u>	<u>7,190</u>	<u>6,430</u>	<u>1,261</u>	<u>67,496</u>
Net assets								
Reserved for scholarships	<u>43</u>	<u>10,088</u>	<u>22,278</u>	<u>20,206</u>	<u>7,190</u>	<u>6,430</u>	<u>1,261</u>	<u>67,496</u>

See accompanying independent auditor's report.

RED OAK COMMUNITY SCHOOL DISTRICT

Combining Statement of Changes in Fiduciary Net Assets
Fiduciary Funds - Private Purpose Trusts

Year ended June 30, 2006

	<u>Anderson Scholarship</u>	<u>Stanley Plank Scholarship</u>	<u>Klopping Trust</u>	<u>Bloom Scholarship</u>	<u>Lowell G. and Blanche Kinnison Scholarship</u>	<u>Leland Peterson Scholarship</u>	<u>Class of 38 Scholarship</u>	<u>Total</u>
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues:								
Local sources:								
Interest on investments	1	327	577	263	528	212	40	1,948
Contributions	-	-	-	-	-	-	500	500
	<u>1</u>	<u>327</u>	<u>577</u>	<u>263</u>	<u>528</u>	<u>212</u>	<u>540</u>	<u>2,448</u>
Expenditures:								
Instruction:								
Regular instruction:								
Other	-	275	900	175	755	1,000	1,000	4,105
	<u>-</u>	<u>275</u>	<u>900</u>	<u>175</u>	<u>755</u>	<u>1,000</u>	<u>1,000</u>	<u>4,105</u>
Excess (deficiency) of revenues over (under) expenditures	1	52	(323)	88	(227)	(788)	(460)	(1,657)
Balance beginning of year	<u>42</u>	<u>10,036</u>	<u>22,601</u>	<u>20,118</u>	<u>7,417</u>	<u>7,218</u>	<u>1,721</u>	<u>69,153</u>
Balance end of year	<u><u>43</u></u>	<u><u>10,088</u></u>	<u><u>22,278</u></u>	<u><u>20,206</u></u>	<u><u>7,190</u></u>	<u><u>6,430</u></u>	<u><u>1,261</u></u>	<u><u>67,496</u></u>

See accompanying independent auditor's report.

RED OAK COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

	Years ended June 30,			
	2006	2005	2004	2003
Local sources:				
General	3,159,237	3,191,962	3,086,744	3,108,239
Special revenue	680,747	688,321	466,323	535,854
Debt service	-	97,731	-	-
Capital projects	687,583	591,734	543,347	525,945
	<u>4,527,567</u>	<u>4,569,748</u>	<u>4,096,414</u>	<u>4,170,038</u>
State sources:				
General	6,312,606	5,770,281	5,471,276	5,527,129
Special revenue	262	232	213	-
Capital projects	-	-	-	-
School nutrition	5,702	5,952	6,761	5,985
	<u>6,318,570</u>	<u>5,776,465</u>	<u>5,478,250</u>	<u>5,533,114</u>
Federal sources:				
General	666,156	620,564	614,537	391,145
Special revenue	-	19,575	-	-
School nutrition	250,814	241,834	225,227	231,146
	<u>916,970</u>	<u>881,973</u>	<u>839,764</u>	<u>622,291</u>
Total	<u>11,763,107</u>	<u>11,228,186</u>	<u>10,414,428</u>	<u>10,325,443</u>

See accompanying independent auditor's report.

RED OAK COMMUNITY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u> \$
Indirect:			
Department of Agriculture:			
Iowa Department of Education:			
Food Distribution	10.550	FY06	17,876
School Nutrition Cluster Programs:			
National School Breakfast Program	10.553	FY06	46,712
National School Lunch Program	10.555	FY06	186,226
			<u>232,938</u>
Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	5463-G-06	225,557
		5463-GC-06	35,022
			<u>260,579</u>
Safe and Drug-Free Schools and Communities - States Grants	84.186	FY06	22,271
Enhancing Education Through Technology	84.318	FY06	3,615
Innovative Education Program Strategies (Title V) Program	84.298	FY06	4,520
Improving Teacher Quality - Grants to States	84.367	FY06	56,404
Grants for Assessments and Related Activities	84.369	FY06	7,596
Reading First - State Grants	84.357	FY06	193,347
Vocational Education - Basic Grants to States	84.048	FY06	38,038
Green Valley Area Education Agency:			
Special Education - Grants to States (IDEA Part B)	84.027	FY06	<u>74,504</u>
Total			<u><u>911,688</u></u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Red Oak Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basis financial statements.

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

To the Board of Education of the
Red Oak Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Red Oak Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 27, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Red Oak Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 06-II-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Red Oak Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Red Oak Community School District and other parties to whom Red Oak Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Red Oak Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

September 27, 2006

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control
over Compliance in Accordance with OMB Circular A-133

To the Board of Education of the
Red Oak Community School District:

Compliance

We have audited the compliance of Red Oak Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Red Oak Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Red Oak Community School District's management. Our responsibility is to express an opinion on Red Oak Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Red Oak Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Red Oak Community School District's compliance with those requirements.

In our opinion Red Oak Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Red Oak Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Red Oak Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Red Oak Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item 06-III-A of the accompanying Schedule of Findings and Questions Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item 06-III-A is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Red Oak Community School District and other parties to whom Red Oak Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

BRUCE D. FRINK
Certified Public Accountant

September 27, 2006

RED OAK COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance that is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.010 - Title I Grants to Local Educational AgenciesSchool Nutrition Clustered Programs:
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.553 - School Breakfast Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Red Oak Community School District did not qualify as a low-risk auditee.

RED OAK COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

06-II-A SEGREGATION OF DUTIES

Comment - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties that are incompatible. The District has done a good job of segregating duties among the present staff, however, the District Secretary continues to have the ability to override the present controls and circumvent the internal control system.

Recommendation - We realize the job description, as defined by the Code of Iowa, of the District Secretary makes the segregation of duties even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and the administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will continue to review procedures to obtain the best controls possible.

Conclusion - Response accepted.

Part III: Findings For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number: 84.010 Title I Grants to Local Educational Agencies
Grant Numbers: 5463-G-06, 5463-GC-06
Federal Award Year: 2006
US Department of Education
Passed through Iowa Department of Education

CFDA Number: 10.553 School Breakfast Program
10.555 National School Lunch Program
Federal Award Year: 2006
US Department of Agriculture
Passed through Iowa Department of Education

CFDA Number: 10.550 Food Distribution
Federal Award Year: 2006
US Department of Agriculture
Passed through Iowa Department of Education

RED OAK COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part III: Findings For Federal Awards:
(continued):

06-III-A Segregation of Duties over Federal Funds - One important aspect of internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties that are incompatible. The District has done a good job of segregating duties among the present staff, however, the District Secretary continues to have the ability to override the present controls and circumvent the internal control system.

Recommendation - We realize the job description, as defined by the Code of Iowa, of the District Secretary makes the segregation of duties even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and the administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will continue to review procedures to obtain the best controls possible.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

06-IV-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2006.

06-IV-B Certified Budget - Expenditures for the year ended June 30, 2006, did not exceed the amounts budgeted.

06-IV-C Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

06-IV-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

06-IV-E Business Transactions - No business transactions between the District and District officials or employees were noted.

06-IV-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

06-IV-G Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.

RED OAK COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part IV: Other Findings Related to Required Statutory Reporting:
(continued):

- 06-IV-H Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- 06-IV-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 06-IV-J Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.